

FREMONT COMMUNITY SCHOOL DISTRICT
FREMONT, IOWA

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2005

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FREMONT COMMUNITY SCHOOL DISTRICT

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<u>Board of Education</u>		
(Before September 2004 Election)		
Larry Crosby	President	2006
Bryan Archer	Vice President	2005
Diane Darland	Board Member	2004
Gary Mitterer	Board Member	2004
Sherri Baxter	Board Member	2005
<u>Board of Education</u>		
(After September 2004 Election)		
Larry Crosby	President	2006
Bryan Archer	Vice President	2005
Sherri Baxter	Board Member	2005
Diane Darland	Board Member	2007
Gary Mitterer	Board Member	2007
<u>School Officials</u>		
Dr. Dean Cook	Superintendent	2005
Amie Riley	District Secretary/Treasurer	2005
Richard Gaumer	Attorney	2005

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of
Fremont Community School District:

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Fremont Community School District, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Fremont Community School District as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated October 31, 2005 on our consideration of Fremont Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The budgetary comparison information on pages 36 through 37 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The District has not presented management's discussion and analysis which introduces the basic financial statements by presenting certain financial information as well as management's analytical insights on that information that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Fremont Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the year ended June 30, 2004 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. The Financial statements for the two years ended June 30, 2003 (none of which are presented herein) were audited by other auditors who expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Oskaloosa, Iowa
October 31, 2005

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Basic Financial Statements

FREMONT COMMUNITY SCHOOL DISTRICT

STATEMENT OF NET ASSETS

June 30, 2005

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and pooled investments	\$ 324,466	\$ 54,462	\$ 378,928
Receivables:			
Property tax:			
Current year	10,584	-	10,584
Succeeding year	540,000	-	540,000
Income surtax	35,428	-	35,428
Due from other governments	143,728	6,045	149,773
Inventories	-	127	127
Capital assets, net of accumulated depreciation (note 5)	1,333,475	8,067	1,341,542
Total assets	2,387,681	68,701	2,456,382
Liabilities			
Salaries and benefits payable	79,349	-	79,349
Accrued interest payable	7,952	-	7,952
Deferred revenue:			
Succeeding year property tax	540,000	-	540,000
Long-term liabilities (note 6):			
Portion due within one year:			
Bonds payable	60,000	-	60,000
Portion due after one year:			
Bonds payable	805,000	-	805,000
Total liabilities	1,492,301	-	1,492,301
Net Assets			
Invested in capital assets, net of related debt	468,475	8,067	476,542
Restricted for:			
Management levy	71,518	-	71,518
Physical plant and equipment levy	58,785	-	58,785
Other special revenue purposes	38,172	-	38,172
Capital projects	114,230	-	114,230
Unrestricted	144,200	60,634	204,834
Total net assets	\$ 895,380	\$ 68,701	\$ 964,081

See notes to financial statements.

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FREMONT COMMUNITY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES
Year Ended June 30, 2005

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants, Contributions and Restricted Interest
Governmental Activities:			
Instruction:			
Regular instruction	\$ 937,696	\$ 68,310	\$ 138,726
Special instruction	172,113	-	38,806
Other instruction	26,834	27,629	-
	<u>1,136,643</u>	<u>95,939</u>	<u>177,532</u>
Support services:			
Student services	4,900	2,109	1,781
Instructional staff services	36,270	-	22,412
Administration services	153,774	-	-
Operation and maintenance of plant services	196,858	2,253	-
Transportation services	48,872	-	860
	<u>440,674</u>	<u>4,362</u>	<u>25,053</u>
Other expenditures:			
Facilities acquisition	17,247	-	-
Long-term debt interest and fiscal charges	50,204	-	-
AEA flowthrough	52,202	-	52,202
Depreciation (unallocated) *	31,947	-	-
	<u>151,600</u>	<u>-</u>	<u>52,202</u>
Total governmental activities	1,728,917	100,301	254,787
Business-Type Activities:			
Non-instructional programs:			
Daycare operations	81,433	75,991	897
Food service operations	45,567	22,075	25,435
	<u>127,000</u>	<u>98,066</u>	<u>26,332</u>
Total	\$ 1,855,917	\$ 198,367	\$ 281,119

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
\$ (730,660)	\$ -	\$ (730,660)
(133,307)	-	(133,307)
795	-	795
(863,172)	-	(863,172)
(1,010)	-	(1,010)
(13,858)	-	(13,858)
(153,774)	-	(153,774)
(194,605)	-	(194,605)
(48,012)	-	(48,012)
(411,259)	-	(411,259)
(17,247)	-	(17,247)
(50,204)	-	(50,204)
-	-	-
(31,947)	-	(31,947)
(99,398)	-	(99,398)
(1,373,829)	-	(1,373,829)
-	(4,545)	(4,545)
-	1,943	1,943
-	(2,602)	(2,602)
(1,373,829)	(2,602)	(1,376,431)

FREMONT COMMUNITY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

Year Ended June 30, 2005

Functions/Programs

General Revenues:

Property tax levied for:

General purposes

Capital outlay

Income surtax

Local option sales and services tax

Unrestricted state grants

Unrestricted investment earnings

Other

Total general revenues

Change in net assets

Net assets beginning of year, as restated (note 10)

Net assets end of year

* = This amount excludes the depreciation that is included
in the direct expense of the various programs.

See notes to financial statements.

Net (Expense) Revenue
and Changes in Net Assets

Governmental Activities		Business-Type Activities	Total
\$	516,189	\$ -	\$ 516,189
	44,997	-	44,997
	38,813	-	38,813
	139,127	-	139,127
	590,699	-	590,699
	7,491	149	7,640
	28,847	70,739	99,586
	<u>1,366,163</u>	<u>70,888</u>	<u>1,437,051</u>
	(7,666)	68,286	60,620
	<u>903,046</u>	<u>415</u>	<u>903,461</u>
\$	<u><u>895,380</u></u>	\$ <u><u>68,701</u></u>	\$ <u><u>964,081</u></u>

FREMONT COMMUNITY SCHOOL DISTRICT

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2005

	General	Special Revenue Physical Plant and Equipment Levy	Nonmajor Governmental Funds	Total Governmental Funds
Assets				
Cash and pooled investments	\$ 164,168	\$ 93,510	\$ 203,584	\$ 461,262
Receivables:				
Property tax:				
Current year	9,267	849	468	10,584
Succeeding year	481,000	41,000	18,000	540,000
Income surtax	35,428	-	-	35,428
Interfund receivable (note 3)	35,574	-	-	35,574
Due from other governments	123,860	-	19,868	143,728
	<u>849,297</u>	<u>135,359</u>	<u>241,920</u>	<u>1,226,576</u>
Total assets	\$ <u>849,297</u>	\$ <u>135,359</u>	\$ <u>241,920</u>	\$ <u>1,226,576</u>
Liabilities and Fund Balances				
Liabilities:				
Excess of warrants issued over bank balance	\$ 136,796	\$ -	\$ -	\$ 136,796
Salaries and benefits payable	79,349	-	-	79,349
Interfund payable (note 3)	-	35,574	-	35,574
Deferred revenue:				
Succeeding year property tax	481,000	41,000	18,000	540,000
Other	35,428	-	-	35,428
Total liabilities	<u>732,573</u>	<u>76,574</u>	<u>18,000</u>	<u>827,147</u>
Fund balance:				
Unreserved:				
Reported in nonmajor Special				
Revenue Funds	-	-	109,690	109,690
Undesignated	116,724	58,785	114,230	289,739
Total fund balances	<u>116,724</u>	<u>58,785</u>	<u>223,920</u>	<u>399,429</u>
Total liabilities and fund balances	\$ <u>849,297</u>	\$ <u>135,359</u>	\$ <u>241,920</u>	\$ <u>1,226,576</u>

See notes to financial statements.

FREMONT COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS
 June 30, 2005

Total fund balances of governmental funds	\$ 399,429
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	1,333,475
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.	35,428
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(7,952)
Long-term liabilities, including bonds payable and compensated absences, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(865,000)</u>
Net assets of governmental activities	<u>\$ 895,380</u>
See notes to financial statements.	

FREMONT COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2005

	General	Special Revenue Physical Plant and Equipment Levy	Nonmajor Governmental Funds	Total
Revenues:				
Local sources:				
Local tax	\$ 526,949	\$ 44,997	\$ 163,941	\$ 735,887
Tuition	68,310	-	-	68,310
Other	35,817	-	27,916	63,733
Intermediate sources	4,596	-	-	4,596
State sources	729,875	-	-	729,875
Federal sources	115,611	-	-	115,611
Total revenues	1,481,158	44,997	191,857	1,718,012
Expenditures:				
Current:				
Instruction:				
Regular instruction	947,368	-	-	947,368
Special instruction	172,113	-	-	172,113
Other instruction	2,333	-	24,501	26,834
	1,121,814	-	24,501	1,146,315
Support services:				
Student services	4,900	-	-	4,900
Instructional staff services	36,270	-	-	36,270
Administration services	152,025	-	-	152,025
Operation and maintenance of plant services	130,981	-	-	130,981
Transportation services	39,685	67,232	-	106,917
	363,861	67,232	-	431,093
Other expenditures:				
Facilities acquisition	-	-	17,247	17,247
Long term debt:				
Principal	-	-	55,000	55,000
Interest and fiscal charges	-	-	50,662	50,662
AEA flowthrough	52,202	-	-	52,202
	52,202	-	122,909	175,111
Total expenditures	1,537,877	67,232	147,410	1,752,519
Excess (deficiency) of revenues over (under) expenditures	(56,719)	(22,235)	44,447	(34,507)

FREMONT COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2005

	General	Special Revenue Physical Plant and Equipment Levy	Nonmajor Governmental Funds	Total
Other financing sources (uses):				
Interfund transfers in	\$ -	\$ -	\$ 105,662	\$ 105,662
Interfund transfers out	-	-	(105,662)	(105,662)
Total other financing sources (uses)	-	-	-	-
Net change in fund balances	(56,719)	(22,235)	44,447	(34,507)
Fund balances beginning of year	173,443	81,020	179,473	433,936
Fund balances end of year	\$ 116,724	\$ 58,785	\$ 223,920	\$ 399,429

See notes to financial statements.

FREMONT COMMUNITY SCHOOL DISTRICT

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES – GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2005

Net change in fund balances - total governmental funds \$ (34,507)

Amounts reported for governmental activities in the statement of activities
are different because:

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the statement of net assets and are allocated over their estimated useful lives as depreciation expense in the statement of activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	\$	21,295	
Depreciation expense		<u>(53,151)</u>	(31,856)

Certain income surtax not received until several months after the District's fiscal year ends is not considered available revenue in the governmental funds and is deferred. It is, however, recorded as revenue in the statement of activities. 3,239

Repayment of long-term liabilities is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets. 55,000

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because, interest is recorded as an expenditure in the funds when due. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.

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Change in net assets of governmental activities \$ (7,666)

See notes to financial statements.

FREMONT COMMUNITY SCHOOL DISTRICT

STATEMENT OF NET ASSETS

PROPRIETARY FUNDS

June 30, 2005

	Enterprise		
		Nonmajor	
		Enterprise	
	Daycare	School	Total
		Nutrition	
Assets			
Cash and cash equivalents	\$ 45,073	\$ 9,389	\$ 54,462
Due from other governments	897	5,148	6,045
Inventory	-	127	127
Capital assets, net of accumulated depreciation (note 5)	-	8,067	8,067
Total assets	<u>45,970</u>	<u>22,731</u>	<u>68,701</u>
Liabilities			
None	-	-	-
Net Assets			
Invested in capital assets, net of related debt	-	8,067	8,067
Unrestricted	<u>45,970</u>	<u>14,664</u>	<u>60,634</u>
Total net assets	<u>\$ 45,970</u>	<u>\$ 22,731</u>	<u>\$ 68,701</u>

See notes to financial statements.

FREMONT COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
Year Ended June 30, 2005

	Enterprise		
		Nonmajor Enterprise	
	Daycare	School Nutrition	Total
Operating revenues:			
Local sources:			
Charges for services	\$ 75,991	\$ 22,368	\$ 98,359
Operating expenses:			
Non-instructional programs:			
Food service operations:			
Salaries	62,760	19,791	82,551
Benefits	10,378	2,841	13,219
Purchased services	3,316	2,652	5,968
Supplies	4,979	19,349	24,328
Depreciation	-	934	934
	81,433	45,567	127,000
Operating loss	(5,442)	(23,199)	(28,641)
Non-operating revenues:			
Interest on investments	111	38	149
Contributions from other funds	59,758	10,981	70,739
State sources	-	741	741
Federal sources	897	24,401	25,298
Total non-operating revenues	60,766	36,161	96,927
Change in net assets	55,324	12,962	68,286
Net assets beginning of year, as restated (note 10)	(9,354)	9,769	415
Net assets end of year	\$ 45,970	\$ 22,731	\$ 68,701

See notes to financial statements.

FREMONT COMMUNITY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended June 30, 2005

	Enterprise		
		Nonmajor Enterprise School Nutrition	Total
	Daycare		
Cash flows from operating activities:			
Cash received from sale of lunches and breakfasts	\$ -	\$ 22,368	\$ 22,368
Cash received from daycare activities	75,991	-	75,991
Cash payments to employees for services	(73,138)	(22,632)	(95,770)
Cash payments to suppliers for goods or services	(8,295)	(27,772)	(36,067)
Net cash used in operating activities	(5,442)	(28,036)	(33,478)
Cash flows from non-capital financing activities:			
Contributions from other funds	28,923	5,881	34,804
(Decrease) in due to other funds (pooled cash)	(5,180)	-	(5,180)
State grants received	-	741	741
Federal grants received	-	17,808	17,808
Net cash provided by non-capital financing activities	23,743	24,430	48,173
Cash flows from investing activities:			
Interest on investments	111	38	149
Net increase (decrease) in cash and cash equivalents	18,412	(3,568)	14,844
Cash and cash equivalents beginning of year, as restated (note 10)	26,661	12,957	39,618
Cash and cash equivalents end of year	\$ 45,073	\$ 9,389	\$ 54,462

FREMONT COMMUNITY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended June 30, 2005

	Enterprise		
		Nonmajor Enterprise School Nutrition	Total
	Daycare		
Reconciliation of operating loss to net cash used in operating activities:			
Operating loss	\$ (5,442)	\$ (23,199)	\$ (28,641)
Adjustments to reconcile operating loss to net cash used in operating activities:			
Depreciation	-	934	934
Commodities used	-	2,736	2,736
Decrease in interfund receivables	-	52	52
(Increase) in inventories	-	(127)	(127)
(Decrease) in accounts payable	-	(2,499)	(2,499)
(Decrease) in interfund payables	-	(5,933)	(5,933)
Net cash used in operating activities	\$ <u>(5,442)</u>	\$ <u>(28,036)</u>	\$ <u>(33,478)</u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2005, the District received \$2,736 of federal commodities. The District also purchased \$5,100 in new equipment for the School Nutrition Fund which was paid for through the Special Revenue Fund, Physical Plant and Equipment Levy.

See notes to financial statements.

FREMONT COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 1. Summary of Significant Accounting Policies

Fremont Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of Fremont, Iowa, and agricultural territory in Keokuk, Mahaska, and Wapello Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Fremont Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on, the District. Fremont Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

B. Basis of Presentation

District-wide Financial Statements – The statement of net assets and the statement of activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for service.

The statement of net assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management which can be removed or modified.

FREMONT COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 1. Summary of Significant Accounting Policies (continued)

B. Basis of Presentation (continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements – Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the District-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the main operating fund of the District. All general tax revenues and other revenues that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Special Revenue Fund, Physical Plant and Equipment Levy is used for maintenance and operation of the District's physical plant and for purchase of certain items of equipment.

The District reports the following major proprietary fund:

The Enterprise, Daycare Fund is used to account for the daycare operations of the District.

C. Measurement Focus and Basis of Accounting

The District-wide financial statements and the proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

FREMONT COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 1. Summary of Significant Accounting Policies (continued)

C. Measurement Focus and Basis of Accounting (continued)

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

All proprietary funds of the District apply all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

FREMONT COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the statement of net assets and the balance sheet:

Cash, Pooled Investments and Cash Equivalents – The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash, and at the day of purchase, have a maturity date no longer than three months.

Property Tax Receivable – Property tax in Governmental Funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education to the County Board of Supervisors. Current year property tax receivable represents unpaid taxes from the current year. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget to the County Auditor by April 15 of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the District-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

The property tax revenue recognized in these funds becomes due and collectible in September and March of the fiscal year with a 1 ½% per month penalty for delinquent payments; is based on January 1, 2003 assessed property valuations; is for the tax accrual period July 1, 2004 through June 30, 2005 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2004.

Due From Other Governments – Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories – Inventories are valued at cost using the first-in, first-out method for purchased items and contributed value for government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

FREMONT COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Fund Equity (continued)

Capital Assets – Capital assets, which include property, furniture, and equipment are reported in the applicable governmental or business-type activities columns in the District-wide statement of net assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 5,000
Buildings	5,000
Improvements other than buildings	5,000
Furniture and equipment:	
School Nutrition Fund Equipment	500
Other furniture and equipment	5,000

Capital assets are depreciated using the straight line method of depreciation over the following estimated useful lives:

Asset Class	Estimated Useful Lives
Buildings	25-50 years
Improvements other than buildings	20 years
Furniture and equipment	5-12 years

Salaries and Benefits Payable – Payroll and related expenses for teachers with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities.

Deferred Revenue – Although certain revenues are measurable, they are not available. Available means collectible within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds, the succeeding year property tax receivable and other receivables not collected within sixty days after year end.

Deferred revenue in the statement of net assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

FREMONT COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Fund Equity (continued)

Compensated Absences – District employees accumulate a limited amount of earned but unused vacation and sick leave benefits. Employees are not paid for unused vacation or sick leave benefits per District policy.

Long-term Liabilities – In the District-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the statement of net assets.

Fund Balances – In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Invested in capital assets, net of related debt – In the District-wide statement of net assets, the net asset balance invested in capital assets, net of related debt is equal to the capital assets balances, including restricted capital assets, less accumulated depreciation and the outstanding balances of any bonds, notes, or other debt that are attributable to the acquisition, construction, or improvement of those assets.

Restricted Net Assets – In the District-wide statement of net assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgets and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2005, disbursements did not exceed the amounts budgeted in any of the four functional areas.

Note 2. Cash and Pooled Investments

The District's deposits in banks at June 30, 2005 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

FREMONT COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 2. Cash and Pooled Investments (continued)

At June 30, 2005, the District had investments in the Iowa Schools Joint Investment Trust as follows:

	<u>Amortized Cost</u>
Diversified Portfolio	\$ <u>191,160</u>

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Interest rate risk – The District’s investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the District.

Credit Risk – The investments in the Iowa Schools Joint Investment Trust were rated Aaa by Moody’s Investors Service.

Note 3. Interfund Receivables/Payables

The following is a summary of the District’s interfund receivables and payables at June 30, 2005:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Amounts resulting from other transactions:		
General	Special Revenue, Physical Plant and Equipment Levy	\$ <u>35,574</u>

Note 4. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2005 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	Capital Projects	\$ <u>105,662</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

FREMONT COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 5. Capital Assets

Capital assets activity for the year ended June 30, 2005 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 27,500	\$ -	\$ -	\$ 27,500
Capital assets being depreciated:				
Buildings	1,662,733	-	-	1,662,733
Improvements other than buildings	3,963	-	-	3,963
Furniture and equipment	252,200	21,295	-	273,495
Total capital assets being depreciated	1,918,896	21,295	-	1,940,191
Less accumulated depreciation for:				
Buildings	441,635	31,749	-	473,384
Improvements other than buildings	297	198	-	495
Furniture and equipment	139,133	21,204	-	160,337
Total accumulated depreciation	581,065	53,151	-	634,216
Total capital assets being depreciated, net	1,337,831	(31,856)	-	1,305,975
Governmental activities capital assets, net	\$ 1,365,331	\$ (31,856)	\$ -	\$ 1,333,475

FREMONT COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 5. Capital Assets (continued)

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Furniture and equipment	\$ 4,070	\$ 5,100	\$ -	\$ 9,170
Less accumulated depreciation	169	934	-	1,103
Business-type activities capital assets, net	<u>\$ 3,901</u>	<u>\$ 4,166</u>	<u>\$ -</u>	<u>\$ 8,067</u>

Depreciation expense was charged by the District to the following functions:

Governmental activities:

 Instruction:

 Regular

\$ 2,248

 Support services:

 Administration

1,749

 Operation and maintenance of plant services

8,020

 Transportation

9,187

21,204

Unallocated depreciation

31,947

Total governmental activities depreciation expense

\$ 53,151

Business-type activities:

 Food service operations

\$ 934

FREMONT COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 6. Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2005 is as follows:

	General Obligation Bonds
Balance beginning of year	\$ 920,000
Additions	-
Reductions	<u>55,000</u>
Balance end of year	<u>\$ 865,000</u>
Due within one year	<u>\$ 60,000</u>

Bonds Payable

Details of the District's June 30, 2005 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Interest Rates	Principal	Interest	Total
2006	5.100 %	\$ 47,713	\$ 60,000	\$ 107,713
2007	5.200	44,652	65,000	109,652
2008	5.300	41,273	65,000	106,273
2009	5.400	37,827	70,000	107,827
2010	5.500	34,048	75,000	109,048
2011	5.550	29,922	80,000	109,922
2012	5.600	25,483	80,000	105,483
2013	5.650	21,002	85,000	106,002
2014	5.650	16,200	90,000	106,200
2015	5.700	11,115	95,000	106,115
2016	5.700	<u>5,700</u>	<u>100,000</u>	<u>105,700</u>
		<u>\$ 314,935</u>	<u>\$ 865,000</u>	<u>\$ 1,179,935</u>

FREMONT COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 7. Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The District's contributions to IPERS for the years ended June 30, 2005, 2004, and 2003 were \$42,776, \$40,798, and \$39,979 respectively, equal to the required contributions for each year.

Note 8. Risk Management

Fremont Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 9. Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$52,202 for the year ended June 30, 2005 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

FREMONT COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 10. Restatement of Balances

We noted that the Enterprise Funds, Daycare and Food Service Funds balances were misstated in the prior year due to errors in cash reconciliations and inadequate records. These funds have been adjusted to reflect these errors at July 1, 2004. The effects of these adjustments on the varying components of the financial statements are as follows:

	Enterprise Funds					
	Business-Type Activities		Major Fund, Daycare Fund		Food Service Fund	
	Cash	Net Assets	Cash	Net Assets	Cash	Net Assets
Balance as reported at June 30, 2004	\$ 1,661	\$ (37,542)	\$ -	\$ (36,015)	\$ 1,661	\$ (1,527)
Correction of cash balances	<u>37,957</u>	<u>37,957</u>	<u>26,661</u>	<u>26,661</u>	<u>11,296</u>	<u>11,296</u>
Balance as restated at July 1, 2004	<u>\$ 39,618</u>	<u>\$ 415</u>	<u>\$ 26,661</u>	<u>\$ (9,354)</u>	<u>\$ 12,957</u>	<u>\$ 9,769</u>

Required Supplementary Information

FREMONT COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances –
Budget and Actual (Cash Basis) – All Governmental Funds
and Proprietary Fund
Required Supplementary Information
Year Ended June 30, 2005

	Governmental Funds - Actual	Proprietary Fund - Actual	Total Actual	Budgeted Amounts Original and Final	Final to Actual Variance
RECEIPTS:					
Local sources	\$ 928,487	\$ 133,312	\$ 1,061,799	\$ 951,628	\$ 110,171
Intermediate sources	4,596	-	4,596	-	4,596
State sources	660,831	741	661,572	774,760	(113,188)
Federal sources	67,106	20,544	87,650	88,000	(350)
Total receipts	1,661,020	154,597	1,815,617	1,814,388	1,229
DISBURSEMENTS:					
Instruction	1,200,472	-	1,200,472	1,594,989	394,517
Support services	481,548	-	481,548	603,583	122,035
Non-instructional programs	-	139,753	139,753	148,398	8,645
Other expenditures	157,864	-	157,864	258,343	100,479
Total disbursements	1,839,884	139,753	1,979,637	2,605,313	625,676
Excess (deficiency) of receipts over (under) disbursements	(178,864)	14,844	(164,020)	(790,925)	626,905
Other financing sources, net	-	-	-	1,500	(1,500)
Excess (deficiency) of receipts and other financing sources over (under) disbursements	(178,864)	14,844	(164,020)	(789,425)	625,405
Balance beginning of year	503,330	39,618	542,948	798,175	(255,227)
Balance end of year	\$ 324,466	\$ 54,462	\$ 378,928	\$ 8,750	\$ 370,178

See accompanying independent auditor's report.

FREMONT COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule – Budget to GAAP Reconciliation Required Supplementary Information Year Ended June 30, 2005

	Governmental Funds		
	Cash Basis	Accrual Adjust- ments	Modified Accrual Basis
Revenues	\$ 1,661,020	\$ 56,992	\$ 1,718,012
Expenditures	1,839,884	(87,365)	1,752,519
Net	(178,864)	144,357	(34,507)
Beginning fund balances	503,330	(69,394)	433,936
Ending fund balances	<u>\$ 324,466</u>	<u>\$ 74,963</u>	<u>\$ 399,429</u>
	Proprietary Fund		
	Cash Basis	Accrual Adjust- ments	Accrual Basis
Revenues	\$ 154,597	\$ 40,689	\$ 195,286
Expenses	139,753	(12,753)	127,000
Net	14,844	53,442	68,286
Beginning net assets, as restated	39,618	(39,203)	415
Ending net assets	<u>\$ 54,462</u>	<u>\$ 14,239</u>	<u>\$ 68,701</u>

See accompanying independent auditor's report.

FREMONT COMMUNITY SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING

June 30, 2005

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except private-purpose trust and agency funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the cash basis. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2005, disbursements did not exceed the amounts budgeted in any of the four functional areas.

Other Supplementary Information

FREMONT COMMUNITY SCHOOL DISTRICT

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2005

	Special Revenue			
	Management	Student	Capital	
	Levy	Activity	Projects	Total
Assets				
Cash and pooled investments	\$ 71,050	\$ 38,172	\$ 94,362	\$ 203,584
Receivables:				
Property tax:				
Current year	468	-	-	468
Succeeding year	18,000	-	-	18,000
Due from other governments	-	-	19,868	19,868
Total assets	<u>\$ 89,518</u>	<u>\$ 38,172</u>	<u>\$ 114,230</u>	<u>\$ 241,920</u>
Liabilities and Fund Equity				
Liabilities:				
Deferred revenue:				
Succeeding year property tax	\$ 18,000	\$ -	\$ -	\$ 18,000
Fund equity:				
Fund balances:				
Unreserved:				
Undesignated	71,518	38,172	114,230	223,920
Total liabilities and fund equity	<u>\$ 89,518</u>	<u>\$ 38,172</u>	<u>\$ 114,230</u>	<u>\$ 241,920</u>

See accompanying independent auditor's report.

FREMONT COMMUNITY SCHOOL DISTRICT

COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 Year Ended June 30, 2005

	Special Revenue				
	Management	Student	Debt	Capital	
	Levy	Activity	Service	Projects	Total
Revenues:					
Local sources:					
Local tax	\$ 24,814	\$ -	\$ -	\$ 139,127	\$ 163,941
Other	119	27,797	-	-	27,916
Total revenues	<u>24,933</u>	<u>27,797</u>	<u>-</u>	<u>139,127</u>	<u>191,857</u>
Expenditures:					
Current:					
Instruction:					
Other instruction	-	24,501	-		24,501
Other expenditures:					
Facilities acquisition	-	-	-	17,247	17,247
Long term debt:					
Principal	-	-	55,000	-	55,000
Interest and fiscal charges	-	-	50,662	-	50,662
Total expenditures	<u>-</u>	<u>24,501</u>	<u>105,662</u>	<u>17,247</u>	<u>147,410</u>
Excess (deficiency) of revenues over (under) expenditures	24,933	3,296	(105,662)	121,880	44,447
Other financing sources (uses):					
Interfund transfers in	-	-	105,662	-	105,662
Interfund transfers out	-	-	-	(105,662)	(105,662)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>105,662</u>	<u>(105,662)</u>	<u>-</u>
Excess of revenues and other financing sources over expenditures and other financing uses	24,933	3,296	-	16,218	44,447
Fund balances beginning of year	<u>46,585</u>	<u>34,876</u>	<u>-</u>	<u>98,012</u>	<u>179,473</u>
Fund balances end of year	<u>\$ 71,518</u>	<u>\$ 38,172</u>	<u>\$ -</u>	<u>\$ 114,230</u>	<u>\$ 223,920</u>

See accompanying independent auditor's report.

FREMONT COMMUNITY SCHOOL DISTRICT

SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
Year Ended June 30, 2005

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
ELP - TAG Activities	\$ 347	\$ 1,392	\$ 1,114	\$ 625
6th Grade Activities	2	1,632	1,705	(71)
7th Grade Activities	680	712	1,393	(1)
8th Grade Activities	441	7,929	8,370	-
Student Council	(787)	3,067	2,644	(364)
Yearbook	1,577	865	1,384	1,058
District-wide Activities	20,686	8,386	3,523	25,549
Book Fair	(1,316)	3,286	4,098	(2,128)
Fundraiser	535	308	171	672
Sports	2,959	-	-	2,959
Cafeteria Benefits Plan	3,950	220	-	4,170
Afterschool	4	-	99	(95)
LIKE	5,798	-	-	5,798
Total	\$ <u>34,876</u>	\$ <u>27,797</u>	\$ <u>24,501</u>	\$ <u>38,172</u>

See accompanying independent auditor's report.

FREMONT COMMUNITY SCHOOL DISTRICT
SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION

ALL GOVERNMENTAL FUNDS
FOR THE LAST FOUR YEARS

	Modified Accrual Basis Years Ended June 30,			
	2005	2004	2003	2002
Revenues:				
Local sources:				
Local tax	\$ 735,887	\$ 765,780	\$ 807,701	\$ 720,850
Tuition	68,310	75,534	77,996	63,409
Other	63,733	60,527	35,454	47,318
Intermediate sources	4,596	-	-	-
State sources	729,875	691,071	720,808	753,781
Federal sources	115,611	36,541	69,757	30,112
Total revenues	<u>\$ 1,718,012</u>	<u>\$ 1,629,453</u>	<u>\$ 1,711,716</u>	<u>\$ 1,615,470</u>
Expenditures:				
Instruction:				
Regular instruction	\$ 947,368	\$ 920,401	\$ 768,102	\$ 775,568
Special instruction	172,113	254,925	230,408	231,342
Other instruction	26,834	21,042	19,447	14,777
Support services:				
Student services	4,900	4,693	27,489	18,823
Instructional staff services	36,270	33,975	39,970	45,328
Administration services	152,025	184,048	183,450	175,290
Operation and maintenance of plant services	130,981	241,780	160,885	98,224
Transportation services	106,917	33,222	36,522	23,053
Non-instructional programs	-	18,568	-	2,967
Other expenditures:				
Facilities acquisition	17,247	-	-	19,190
Long-term debt:				
Principal	55,000	50,000	50,000	45,000
Interest and fiscal charges	50,662	53,100	55,888	58,619
AEA flowthrough	52,202	53,473	57,320	57,628
Total expenditures	<u>\$ 1,752,519</u>	<u>\$ 1,869,227</u>	<u>\$ 1,629,481</u>	<u>\$ 1,565,809</u>

See accompanying independent auditor's report.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

To the Board of Education of
Fremont Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Fremont Community School District as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated October 31, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Fremont Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe items I-A-05 and I-B-05 are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Fremont Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about Fremont Community School District's operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Fremont Community School District and other parties to whom Fremont Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Fremont Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Oskaloosa, Iowa
October 31, 2005

FREMONT COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS

Year Ended June 30, 2005

Part I: Findings Related to the General Purpose Financial Statements:

Instances of Non-Compliance:

No matters were reported.

Reportable Conditions:

- I-A-05 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the bank deposits, bank reconciliations, and the posting of the cash journals, payroll and payroll records are all done by the same person.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – We will investigate available alternatives and implement changes where deemed necessary and efficient. Time cards are now being approved by the Principal and a secretary now opens the mail.

Conclusion – Response acknowledged. The District could segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

- I-B-05 Accounting Records – The accounting records (both manual and computerized) were not accurate. In our confirmation of revenues received by the District from the Iowa Department of Revenue, we noted that various checks written to the District totaling \$73,521 were lost or misplaced by the District. The District was unaware of this situation until the date of the beginning of our audit fieldwork. The computer records did not include all transactions of the District and contained various checks that had been voided but still remained in the computer system. The interest earned on the ISJIT account was recorded in the accounting system this year but was recorded in reverse. There were numerous misclassifications noted in the accounting records, both in fund and account codes. Also, the Board Secretary maintained a manual record of all bank accounts; however, these records were not accurate. We were not able to find various items such as W-4's and were unable to reconcile wages reported per general ledger accounts to wages reported to Workforce of Iowa. In addition, we noted that no IRS Form 1099's had been filed for outside services exceeding \$600.

Recommendation – The District must make basic changes in its accounting department procedures or personnel to ensure that accurate and adequate records are maintained.

Response – We have implemented personnel changes at this time and we will investigate and install procedures that insure better control over the recording of financial transactions.

Conclusion – Response acknowledged. However, this has been an ongoing situation which we believe must be addressed to allow the continuance of District operations.

FREMONT COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS

Year Ended June 30, 2005

Part I: Findings Related to the General Purpose Financial Statements (continued):

Reportable Conditions (continued):

- I-C-05 Netting of Revenues and Expenditures – We noted one instance where revenues were netted to expenditure accounts.
- Recommendation – This practice bypasses the budgeting process and understates both revenues and expenditures. All expenditures should be properly recorded in the future and the District should avoid the netting of any transactions.
- Response – We will properly record all expenditures in the future to avoid bypassing the budget and to properly reflect all transactions.
- Conclusion – Response accepted.
- I-D-05 Disbursement Support – We noted five disbursements made without any or inadequate supporting invoices or other documentation.
- Recommendation – In the future, the District should require full support documentation prior to the issuance of any disbursements. This creates better controls over all District disbursements.
- Response – We will require full documentation for all future disbursements.
- Conclusion – Response accepted.
- I-E-05 Disbursement Approval – We noted four disbursements made without any approval by the Board as required by Chapter 279.29 of the Code of Iowa.
- Recommendation – This procedure weakens the control the Board has over disbursements and weakens the control of the District over the underlying asset. Chapter 279.30 of the Code of Iowa allows payment of specific items, such as utilities, postage and printing, without prior Board approval. The Board may approve a resolution designating certain other disbursements that may be paid prior to a Board meeting with the approval of the Board President. The Board's written policy should comply with Chapter 279.30 of the Code of Iowa. Then, except as expressly permitted, no checks should be prepared for claims that have not been properly audited and allowed.
- Response – We will properly approve all disbursements, as required, in the future.
- Conclusion – Response accepted.
- I-F-05 Meal Revenues – The District accounts for all Enterprise, School Nutrition Fund sales through one revenue code. As a result of this, we were unable to complete an accurate analytical test comparing projected meal revenues with actual revenues.
- Recommendation – The State of Iowa requires the District be able to track all sales of reimbursable student lunches, student breakfasts, and milk sales through the District system. The District should set up revenue accounts for all necessary types of revenue in the School Nutrition fund to be in compliance with School Food Authority requirements and to enable the District to track and monitor food service sales and revenues.

FREMONT COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS

Year Ended June 30, 2005

Part I: Findings Related to the General Purpose Financial Statements (continued):

Reportable Conditions (continued):

I-F-05 Meal Revenues (continued)

Response – We will investigate setting up the proper accounts needed and will monitor food service revenues in the future.

Conclusion – Response accepted.

I-G-05 Receipt Documentation – We noted several receipts with no supporting documentation. Also, we noted that several deposits of receipts were not made on a timely basis. In addition, we noted six items with no duplicate receipt documentation.

Recommendation – To protect the underlying asset and to facilitate the tracking of revenues through the District's system, all supporting receipt documentation should be maintained. The timely deposit of all receipts would further protect the underlying assets.

Response – We will maintain better supporting documentation for all receipts and we will try to make more timely deposits in the future.

Conclusion – Response accepted.

I-H-05 Misplaced Check Run – We noted that the District made a check run on June 30, 2005, to pay all current year liabilities outstanding. However, none of these checks have cleared the bank as of the final audit date and no investigation was done by the District into the status of these checks.

Recommendation – The District should contact all vendors involved and investigate the status of both the bills paid and the outstanding bills.

Response – We will immediately investigate this situation and resolve any conflicts.

Conclusion – Response accepted.

I-I-05 Capital Assets – The District did not complete a reconciliation of capital assets on hand at June 30, 2005 to the prior year.

Recommendation – The District should reconcile capital assets on hand at year end to prior year amounts. This reconciliation should include purchase costs, depreciation expense for the current year, and accumulated depreciation totals. The District should also have an employee not responsible for maintaining capital asset records match those records to the physical assets on hand.

Response – We will properly reconcile capital asset records in the future and we will have an independent employee vouch the records to the physical assets.

Conclusion – Response accepted.

FREMONT COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS

Year Ended June 30, 2005

Part II: Other Findings Related to Statutory Reporting:

- II-A-05 Official Depositories – Official depositories have been approved by the District. The maximum deposit amounts approved were not exceeded during the year ended June 30, 2005.
- II-B-05 Certified Budget – Disbursements for the year ended June 30, 2005, did not exceed the amount budgeted in any of the four functional areas.
- II-C-05 Questionable Expenditures – We noted three expenditures that may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979. One disbursement was for sales taxes paid. Another disbursement included \$82 for personal phone calls but only \$25 was reimbursed. In addition, the District incurred \$1,440 in penalties due to insufficient deposits into the Iowa Public Employees Retirement System (IPERS).

Recommendation – The District should monitor all future disbursements for the public purpose served and disallow any that don’t serve this purpose. The District should seek reimbursement for the personal phone calls. The District should insure the accuracy of all IPERS deposits in the future.

Response – We will monitor all future disbursements to insure the public purpose is served. We received full reimbursement for the personal phone calls as soon as we noted the shortage. We subsequently received a refund of the IPERS penalty and will be more careful in the future.

Conclusion – Response accepted.

- II-D-05 Travel Expense – No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- II-E-05 Business Transactions – Business transactions between the District and District officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Larry Crosby, Board President Owner of Super Wrench	Vehicle repairs and maintenance	\$ 1,410
Gary Mitterer, Board Member Owner of Country Store	School supplies	\$ 1,602

The transactions with Board President Crosby and Board Member Mitterer do not appear to represent conflicts of interest since the transactions with both parties were less than \$2,500 as provided by Chapter 279.7A of the Code of Iowa.

- II-F-05 Bond Coverage – Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

FREMONT COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS

Year Ended June 30, 2005

Part II: Other Findings Related to Statutory Reporting (continued):

- II-G-05 Board Minutes – Except as previously noted in item I-E-05, no transactions requiring Board approval which had not been approved by the Board were noted. However, we noted that not all board minutes were properly signed as evidence of accuracy.

Recommendation – The District should insure that all minutes are properly signed in the future.

Response – This was an oversight this year. We will properly sign all minutes in the future.

Conclusion – Response accepted.

- II-H-05 Certified Enrollment – We noted that the enrollment data certified to the Department of Education was understated by eight students through the exclusion of seven resident students open enrolled outside the District and one student tuitioned outside the District.

Recommendation – The District should contact the Iowa Departments of Education and Management to resolve this situation.

Response – We will contact the appropriate Departments to resolve this error.

Conclusion – Response accepted.

- II-I-05 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy were noted.

- II-J-05 Certified Annual Report – The Certified Annual Report (CAR) was filed with the Department of Education. However, we noted significant deficiencies in the amounts reported and the CAR was not filed by the due date. Also, the non-fiscal sections of the CAR have not been filed with the Department of Education as of the final date of fieldwork.

Recommendation – The District should ensure that the CAR is accurate and filed with the Department of Education in a timely manner in subsequent years. Also, the District should file the non-fiscal sections of the CAR with the Department of Education as soon as possible for the year ended June 30, 2005.

Response – We will file our CAR by the due date for all future years and will file the non-fiscal sections of this year's CAR with the Department of Education as soon as possible. We will make an effort to ensure accuracy in the future.

Conclusion – Response accepted.

FREMONT COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS

Year Ended June 30, 2005

Part II: Other Findings Related to Statutory Reporting (continued):

- II-K-05 Allocation of Interest – We noted that the District did not allocate interest revenue to the Special Revenue Funds, Management Levy and Physical Plant and Equipment Levy and the Capital Projects Fund.

Recommendation – The cash of these funds is pooled into one account. As a result of this, any interest earned on the account should be allocated to all funds sharing the account.

Response – We will properly allocate interest earnings to all funds in the future.

Conclusion – Response accepted.

- II-L-05 Section 125 Benefits Plan – We noted that the District offers employees participation in an IRS Section 125 cafeteria benefits plan. We noted that a cafeteria benefits account exists in the Special Revenue, Student Activity Fund. We also noted that the District set up cafeteria plan participation for one employee that was incorrectly completed. All remittances made on behalf of the employee were subsequently returned to the District, which simply recorded the amounts back into the General Fund. No investigation was made into the purpose of these receipts.

Recommendation – The District should pay all future benefits through the District's General Fund only and transfer the remaining balance from the Activity Fund to the General Fund. The District should insure the accuracy of all new future cafeteria plans in the future.

Response – We will pay all future benefits strictly through the General Fund only and transfer the balance to the General Fund. We will set up procedures to accurately begin all future new cafeteria accounts. We corrected this account in July, 2005 in response to inquiry by the employee.

Conclusion – Response accepted.

- II-M-05 Deficit Balances – The Special Revenue Fund, Student Activities, had several accounts with deficit balances at June 30, 2005.

Recommendation – The District should analyze these accounts to determine possible resolutions that will eliminate these deficits.

Response – We will investigate ways to eliminate deficits in individual Student Activity accounts.

Conclusion – Response accepted.

FREMONT COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS

Year Ended June 30, 2005

Part II: Other Findings Related to Statutory Reporting (continued):

- II-N-05 Income Surtax – The District levies an instructional support income surtax on District residents as an additional funding source for instructional expenditures. This income surtax should be recorded in the District's General Fund. However, the District improperly recorded these receipts into the Special Revenue Fund, Physical Plant and Equipment Levy.

Recommendation – An interfund payable/receivable was recorded at year end to correct this situation. However, the District should properly record all instructional support income surtax into the proper fund in the future.

Response – We will properly record the income surtax receipts in the future.

Conclusion – Response accepted.

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